QUARTERLY UPDATE OF THE LONG-TERM REVENUE FORECAST

Statutory Report to the Cook County Board of Commissioners

January 30, 2024

Contents

Introduction

The following report provides an update between the long-term financial plan provided to the IRFC and posted on the County's website in October 2023, and the most up to date forecast. The forecast was updated in accordance with Section Sec. 2-78 of the Cook County Code, which states:

b) The purpose of the Independent Revenue Forecasting Commission (IRFC) will be to review and analyze an annual five-year revenue forecast (the "forecast") for the County as developed and prepared by the Chief Financial Officer (the "CFO"). Updates pertaining to the forecast will be provided to the IRFC, the Board and posted on the IRFC website on a quarterly basis by the CFO. The forecast will include, but not be limited to, analysis of the following County revenue streams: Sales and Use taxes, Property Taxes, Cigarette Taxes, Fuel Taxes, and other sources of County revenue.

This report includes a summary of the variance analysis comparing the two forecasts and provides an explanation for the significant variances, along with additional supporting detail outlining progress made on the County's sales tax projections and a summary of the impact of the revenue projections on our long-term expense projections for both the General and Health Funds. The report concludes with FY2023 and FY2024 project plans and an update on recent regional economic activity.

Long-term forecast

Cook County prepares a long-term financial forecast to support responsible fiscal planning. This section provides an overview of updates to the long-term General Fund and Health Fund forecasts.

General Fund

The General Fund accounts for approximately a quarter of the County's overall budget. It is comprised of the Corporate Fund and Public Safety Fund and supports the County's general operations.

Changes in forecasts since October 2023

Table 1 shows the nominal variance between the current forecast and what was presented at the last quarterly IRFC meeting in October. The FY2025 General Fund revenue forecast increased by $13.9 million, however, there were decreases in the out-years of the long-term forecast. The long-term forecast for each revenue source was revised upward or downward based on the revenues adopted for the FY2024 budget, as well as more recent results. The sales tax forecast experienced the largest nominal changes from the October forecast. As a result of updates to Moody's Analytics' Gross Metro Product and Consumer Price Index for All Consumers outyear projections for the Chicago Metropolitan Statistical Area, sales tax revenue was revised upwards by $17.5 million for FY2025 and downwards by $10 million and $13.5 million for FY2027 and FY2028, respectively. The property tax forecast is lower as it now accounts for updated estimates—slightly higher estimates—of the property tax levy going towards statutory pension contributions. Additionally, the portion of the property tax levy allocated to the Election Fund was slightly increased in outyear projections to keep pace with historical growth.

Table 1. Significant nominal variances between 10/26/2023 and 01/30/2024 forecast, in millions

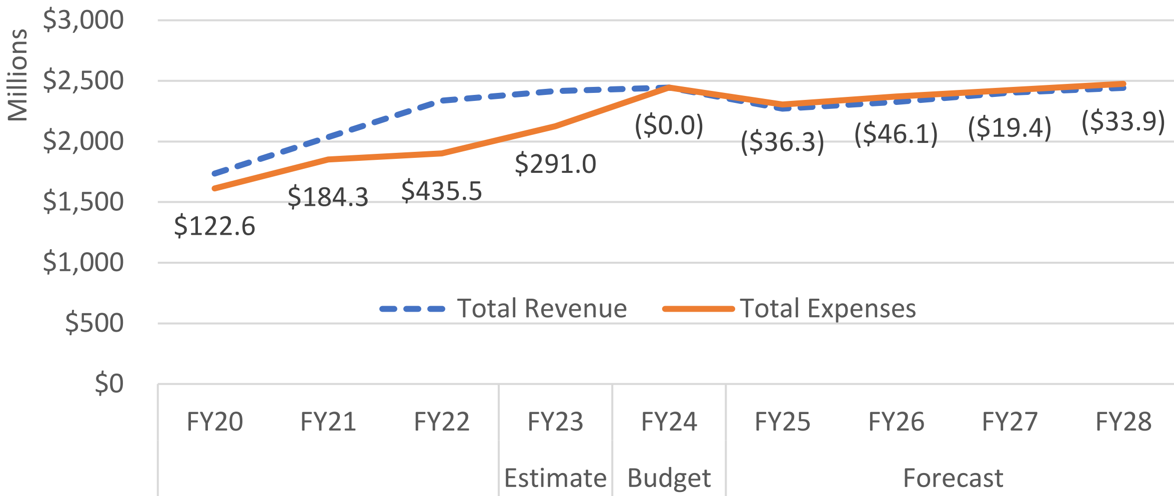
Revenue source	January forecast FY2025	Percent change in forecast FY2025	Amount change in forecast from October 2023 forecast FY2025	FY2026	FY2027	FY2028
401150-County Sales Tax	$1,155.4	1.5%	$17.5	$0.0	($10.0)	($13.5)
407010-Miscellaneous Revenue	$40.7	10.1%	$3.7	$4.7	$4.1	$4.3
402548-Clerk of the Circuit Court Fees	$65.6	(2.4%)	($1.6)	($1.8)	($2.0)	($2.2)
400010-Property Taxes	$170.0	(3.6%)	($6.3)	($6.3)	($5.6)	($10.8)
Subtotal major changes	**$1,431.8**	**0.9%**	**$13.3**	**($3.4)**	**($13.4)**	**($22.1)**
Other GF revenues	$588.5	0.1%	$0.5	($0.9)	($0.5)	$0.3
Total GF revenues	**$2,020.3**	**0.7%**	**$13.9**	**($4.3)**	**($13.9)**	**($21.9)**

Long term fiscal plan

Although Cook County has a diverse revenue base, the natural growth in revenues may not keep pace with expenditures. Expenditures rise over time due to inflationary pressures, with medical trends for health benefits and several other categories of expenditures growing faster than general inflation. Several critical revenue sources are declining over time or growing at rates below general inflation.

Revenues are expected to largely keep pace with expenses, with small deficits in the long term. Between FY2024 and FY2028, total expenses for the General Funds are expected to increase at a compound annual growth rate (CAGR) of 0.1 percent, while revenues are estimated to increase slightly by a CAGR of 0.01 percent. General Fund revenue growth can be mostly attributed to sales tax, which is expected to grow at an average annual rate of 3.1 percent. Hotel and Amusement taxes are anticipated to increase as they continue to recover from drops experienced during the height of the COVID-19 pandemic. Additionally, PPRT revenue disbursed to the General Fund in the Non-Property Taxes account is projected to increase by a CAGR of 13.6 percent, as state adjustments resulting in reduced disbursements are expected to lessen by 2026. However, a handful of Cook County revenue streams are either failing to keep pace with inflation or declining, including the cigarette, gasoline, and alcoholic beverage taxes.

Figure 1. General Fund net surplus/(deficit) projections*



*Includes Transportation Home Rule Tax (TRHRT) revenues

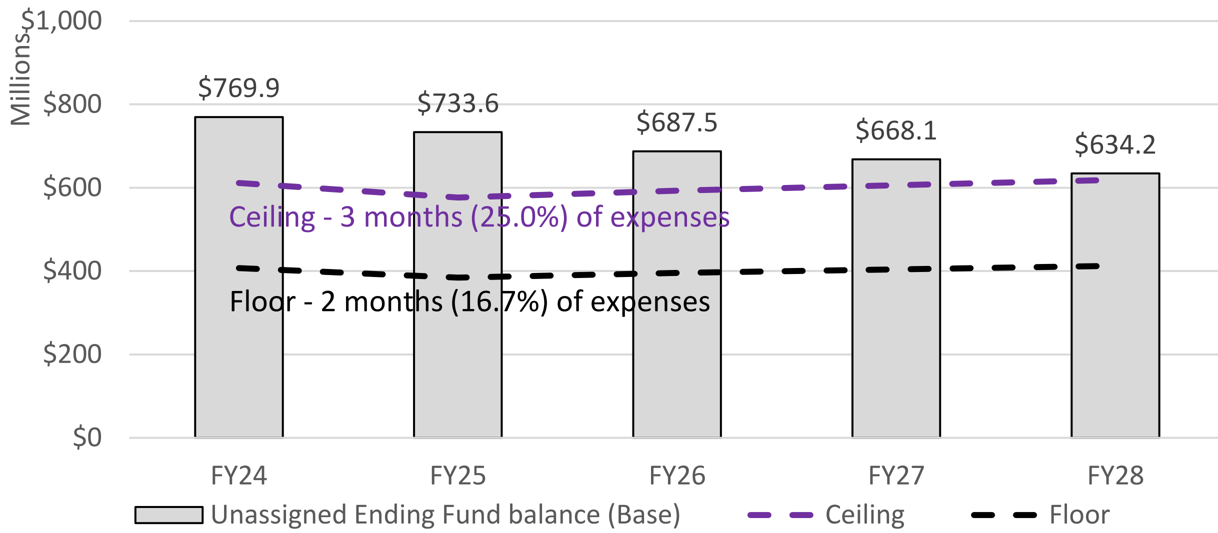
Fund balance projection

Current estimates indicate that the FY2023 unassigned ending fund balance within the General Fund will be $913.1 million, reflecting assignments totaling $158.8 million at the end of the year. FY2024 is forecast to end with a balance of $769.9 million, reflecting $143.1 million in fund balance transfers from the General Fund for the following purposes: $100.0 million to the County's new Disaster Response and Recovery Fund, $11.9 million to Cook County Land Bank, $10.9 million to the Equity Fund, $9.1 million to the Infrastructure and Equipment Fund, and $11.2 million for one-time General Fund expenses. The $769.9 million unassigned ending fund balance also reflects an assignment of $158.8 million to a new American Rescue Plan Act (ARPA) Program Sustainability Reserve. This fund balance is equivalent to approximately 31.5 percent of the County's FY2024 annual budgeted expenditures from the General Fund and the Transportation Fund.

Figure 2 illustrates that the projected ending fund balances are anticipated to decrease based on the long-term revenue and expense forecasts for FY2024 to FY2028. The long-term projected ending fund balance is estimated to decrease, reaching $634.2 million by FY2028, and remaining above the ceiling. The purple dotted line (Ceiling) represents 3 months of projected General Fund and Transportation Related Home Rule Taxes Fund expenses, and the dark green dotted line (Floor) represents 2 months of projected annual General Fund and Transportation Related Home Rule Taxes Fund expenses. The floor is the GFOA's minimum recommended value that local governments maintain in their unassigned ending fund balance.[1]

[1] Government Finance Officers Association, Best Practices: Fund Balance Guidelines for the General Fund, 2015, https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund

Figure 2. Unassigned ending fund balance projection, FY2024 to FY2028



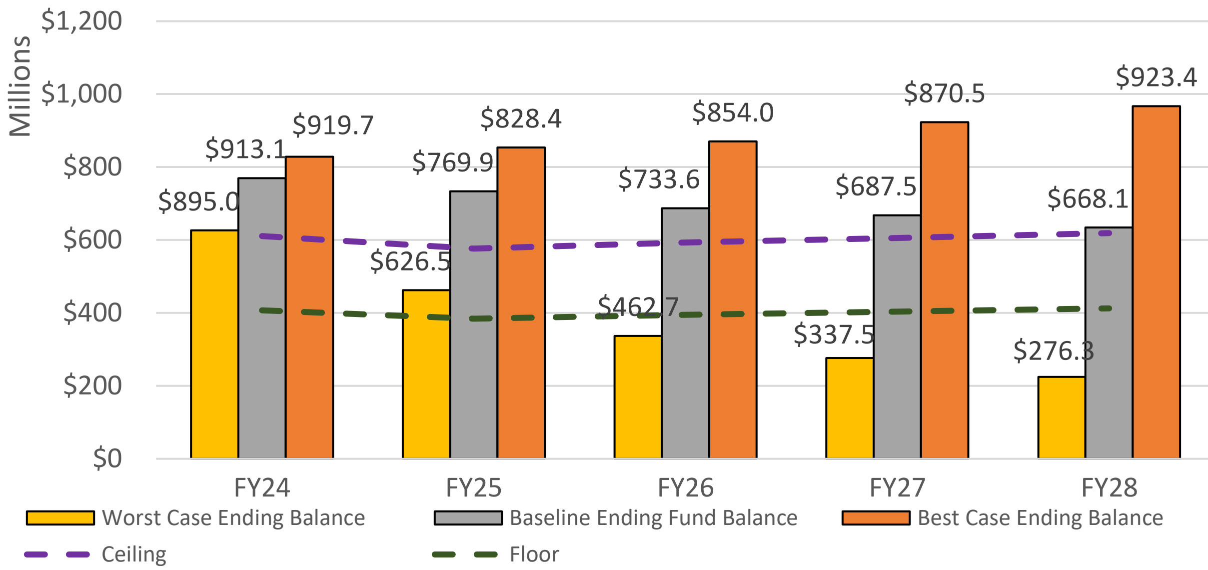
Alternative fund balance scenarios

To understand the impact of different economic scenarios on General Fund revenues and the resulting fund balance, the OCFO forecasts economically sensitive revenues based on different economic indicators using Moody's baseline, S1, and S3 scenarios, which represent the 50th, 10th, and 90th percentile forecasts of potential economic conditions, respectively. Indicators such as gross metropolitan project, unemployment rate, and CPI are used for different revenue sources.

Each revenue scenario is compared to the expenditure forecast, along with the fund balance floor and ceiling; the floor represents two months of projected annual expenses and ceiling represents three months of projected annual expenses. The revenue scenarios, as well as the floor and ceiling, incorporate both General Fund and Transportation Fund revenues and expenses in order to fully capture the potential economic impacts on revenues used by the County for operating expenses.

Figure 3 represents the baseline scenario alongside the worst- and best-case scenarios. In the baseline scenario, fund balance remains above the fund balance floor and ceiling through FY2028. This baseline forecast from Moody's Analytics assumes the federal government avoids a shutdown and remains in continuous operation through 2024, the Federal Reserve is done tightening and will begin easing interest rates in June 2024, and inflation growth will approach the Fed's target range around the fourth quarter of calendar year 2024. The best-case scenario, where there is a 10% probability that the economy will perform better and a 90% probability that it will perform worse, assumes interest rates and inflation are a bit higher than baseline due to stronger growth, the economy has more than full employment starting the first quarter of 2024, and the Russian invasion of Ukraine and Hamas-Israel conflict resolve faster than anticipated. The worst-case scenario, where there is a 90 percent chance of the economy performing better and a 10 percent chance it will perform worse, assumes there is a rise in unemployment starting in the first quarter of 2024 and peaking at 7.7% in the first quarter of 2025, as well as the economy falling into a recession beginning in the first quarter of 2024 due to a federal government shutdown, stillelevated inflation, recent bank failures, and the Fed's decision to initially keep the fed funds rate elevated. This worst-case scenario results in an ending funding balance $143.4 million below the base case in FY2024 and drops below the floor in FY2026 as revenues decline faster than expenses.

Figure 3. Unassigned ending fund balance projection, FY2024 to FY2028



Health Fund

The Health Fund accounts for nearly half of the County's overall budget. The Health Fund receives revenue from and is used to support health system operations and CountyCare.

Long term fiscal plan

By FY2028, CCH revenues are expected to increase by $1.204 billion over the FY2024 adopted budget, a CAGR of 6.4%. Overall, this is primarily driven by growth in per member per month (PMPM) revenues at Health Plan Services (HPS), which are expected to grow $ 1.128 billion at a CAGR of 9.3% from FY2024 to FY2028. The reinstatement of redetermination is expected to cause initial declines in revenues in FY2024 and part of FY2025. Declines in membership due to redetermination will be offset by increases due to the addition of Immigrant Adults and Immigrant Seniors. As of January 1, 2024, individuals covered under Health Benefits for Immigrant Adults have been moved from fee-for-service care and are now eligible for managed care. CountyCare anticipates an average of 9,200 members per month until CountyCare has reached approximately 40,000 new members. However, after an initial decline, increases in revenue are driven by expected increases in PMPM rates for HPS, as membership is anticipated to be flat.

Net Patient Service Revenues (NPSR) are anticipated to increase by a CAGR of 3.5% from FY2024 to FY2028. These patient fee forecasts assume an increase in the average reimbursement rate by 2% year-over-year for members paying with Medicaid but assume no growth in gross charges or shift in payer mix, after the initial shift in FY2024 from patients covered by Medicaid to uncompensated care. After the initial decrease in both revenue and expense in FY2024, driven by the redetermination process, expenses are anticipated to grow faster than revenue for FY2024 through FY2028.

Figure 4 compares forecasted revenues and expenses for the Health Fund through FY2028. Expenditures within the entire fund are expected to increase by $1.234 billion, a compounded annual rate of 6.6 percent, while revenues, after property tax allocation, grow by $1.204 billion, a 6.4% increase over the same period. Property tax allocations to the Health Fund are expected to increase by $10 million annually.

Figure 4. Health Fund net surplus/(deficit) projections

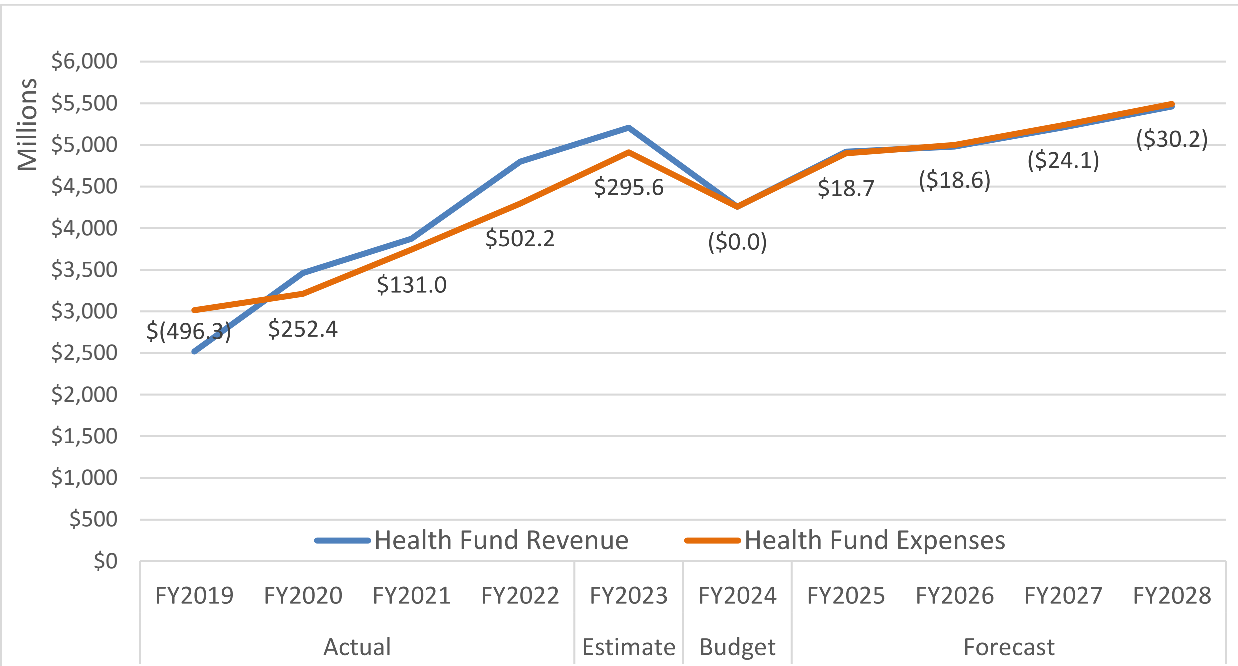
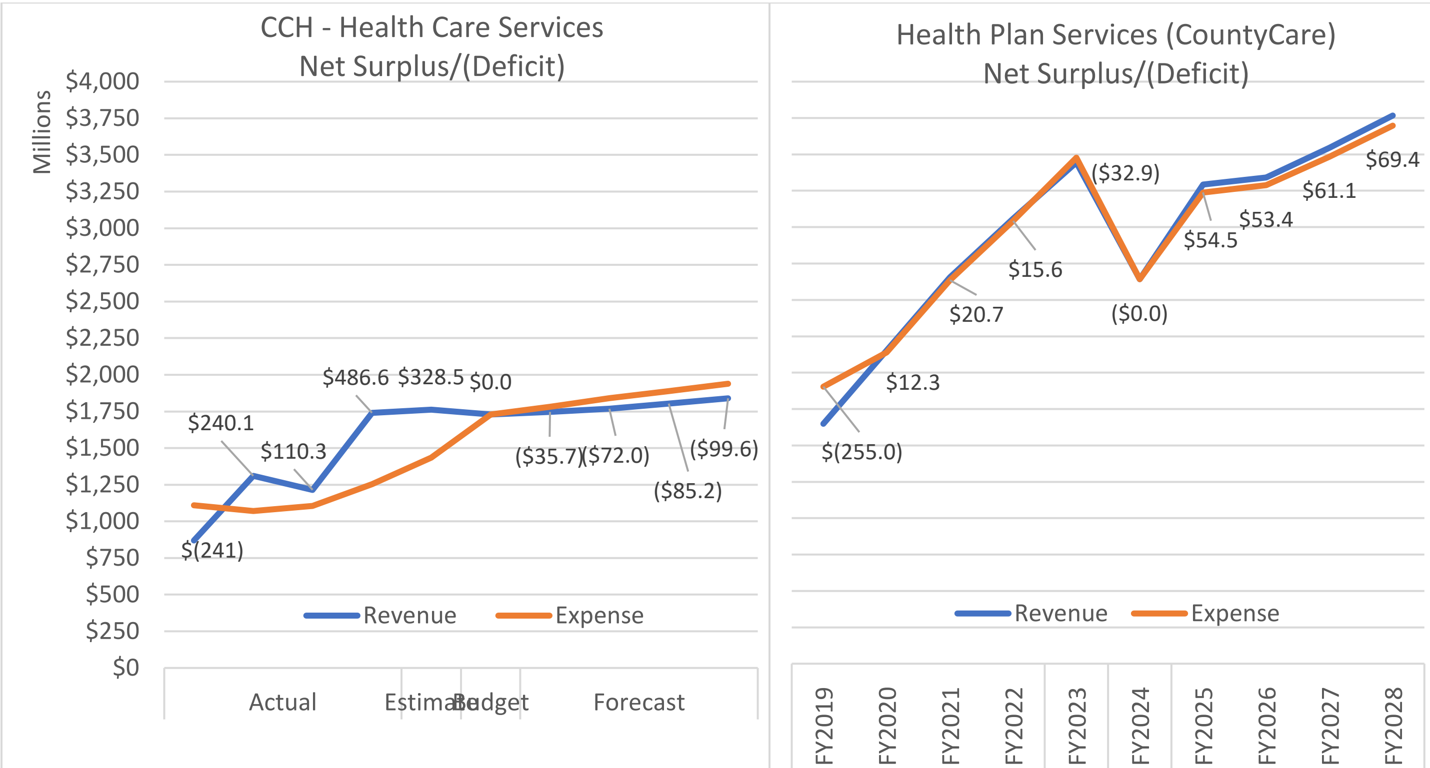


Figure 5 illustrates how revenues growing slower than expenses for health care services will drive small deficits within the overall Health Fund from FY2024 through FY2028. Expenses during this time will increase as salaries and professional services are anticipated to grow, further driving this deficit. At HPS however, after initial declines in FY2024 and some continuation into FY2025, long-term growth in the Health Fund will be driven by PMPM rate increases at Health Plan Services.

Figure 5. Health Plan Services and Health Care Services net surplus/(deficit) projection



*Domestic claims elimination excluded from totals in both charts.

CountyCare revenue scenarios

Budgeted Health Enterprise Fund revenues are built from several baseline assumptions about the future. To better understand how different assumptions may impact revenue outcomes, three long-term forecasts are developed using conservative, baseline, and optimistic assumptions.

CountyCare revenue is a function of the number of CountyCare members and the fixed PMPM reimbursement generated by those members. Both factors are driven by state policy changes that impact membership levels and PMPM rates. The scenarios for NPSR focus on the underlying impacts that drive the amount charged by CCH for medical services, and how much revenue CCH yields from those charges. The three revenue forecasting scenarios consider the impacts of changes in volume in the hospital system, reimbursement rates, and whether and how patients are insured.

Like the baseline forecast, revenues in the conservative scenario are anticipated to drop in FY2025, and then grow at an average annual rate of 3.8% between FY2025 and FY2028, as compared to 4.6% in the baseline scenario. In the optimistic scenario, revenues grow consistently from FY2024 and grow 5.4% on average between FY2025 and FY2028. With redetermination having resumed in June of 2023, all scenarios have now accounted for this impact. Figure 6 shows projected revenues for CountyCare in each scenario. In all scenarios, overall revenue growth was driven by growth in PMPM rates.

Figure 6. CountyCare projected revenues, FY2024 through FY2028

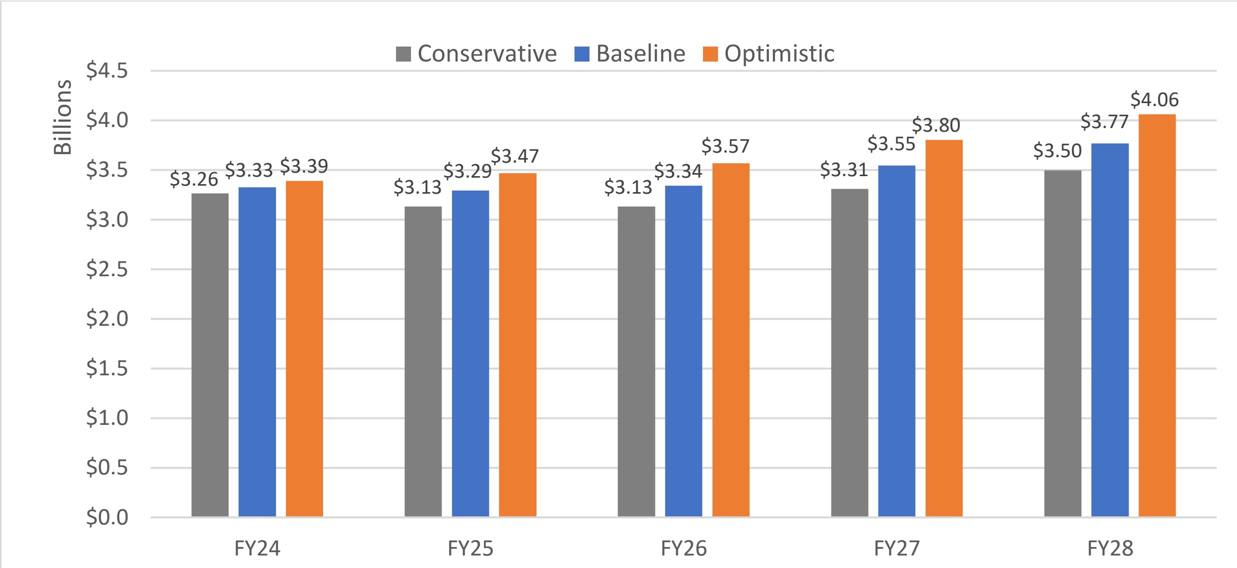
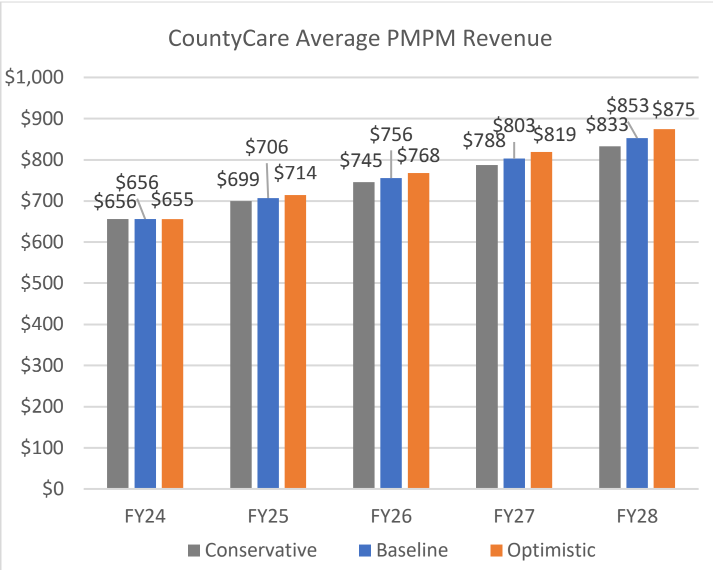
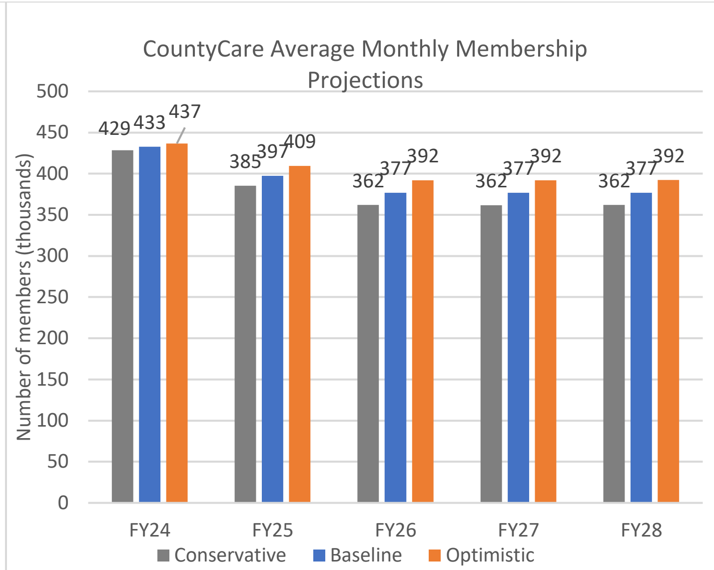


Figure 7 compares growth in monthly membership with growth in average PMPM revenue. The baseline scenario assumes an average annual growth of 6.8% in PMPM rates between FY2024 and FY2028 based on past trends, while the conservative and optimistic scenarios assume a 6.1% and 7.5% growth, respectively. For all scenarios, average monthly membership is anticipated to drop in FY2024 and then again in FY2025 when the full year impact of redetermination is experienced. After these initial declines, membership decreases between 1.4% and 2.1% annually in the Optimistic and Conservative scenarios, respectfully. The baseline scenario assumes auto-assignment, choice adds, and member terminations will follow the previous 3-month average; PMPM rates will increase in a manner consistent with past trends. The conservative scenario assumes auto-assignment and choice adds will be lower and member terminations will be higher than the previous 3-month average; PMPM rates will increase slower than past trends. The optimistic scenario assumes auto-assignment and choice adds will be higher and member terminations will be lower than the previous 3-month average; PMPM rates will increase faster than the past trends.

Figure 7. CountyCare average PMPM revenue and monthly membership projections





Net patient service revenue scenarios

The revenue forecast centers around making assumptions about future service volumes, payor mix, and the level and rates of contractual payments from various insurers, and inability of self-pay patients to pay the full gross charges that the County bills for medical care provided. Considerations include looking at historical trends, expected policy changes, and economic conditions that may affect service volumes, payor mix, or reimbursements rates. For example, due to changes in eligibility and coverage available to historically uninsured individuals, the percentage of patients covered under Medicaid is expected to increase. This would increase the percent of gross revenues charged to Medicaid and decrease the percent charged to self-pay patients, who reimburse the County at a much lower rate than Medicaid managed care organizations.

In the baseline scenario used in the long-term forecast, the forecast assumes that volume will be consistent, patients will maintain their current insurance coverage as of FY2024, and reimbursements rates will be consistent with inflation. To understand the impact of changes that would result in lower revenue growth, the conservative scenario assumes a decline in volume and associated gross charges, that fewer people will have Medicaid coverage, and reimbursement rates will fall below inflation. Conversely, the optimistic scenario assumes that volume and associated gross charges will increase, that more charges associated with self-pay will be covered by Medicaid, and that reimbursement rates will be higher than inflation.

Figure 8. Net patient service revenues compared to gross charges, 2024-28

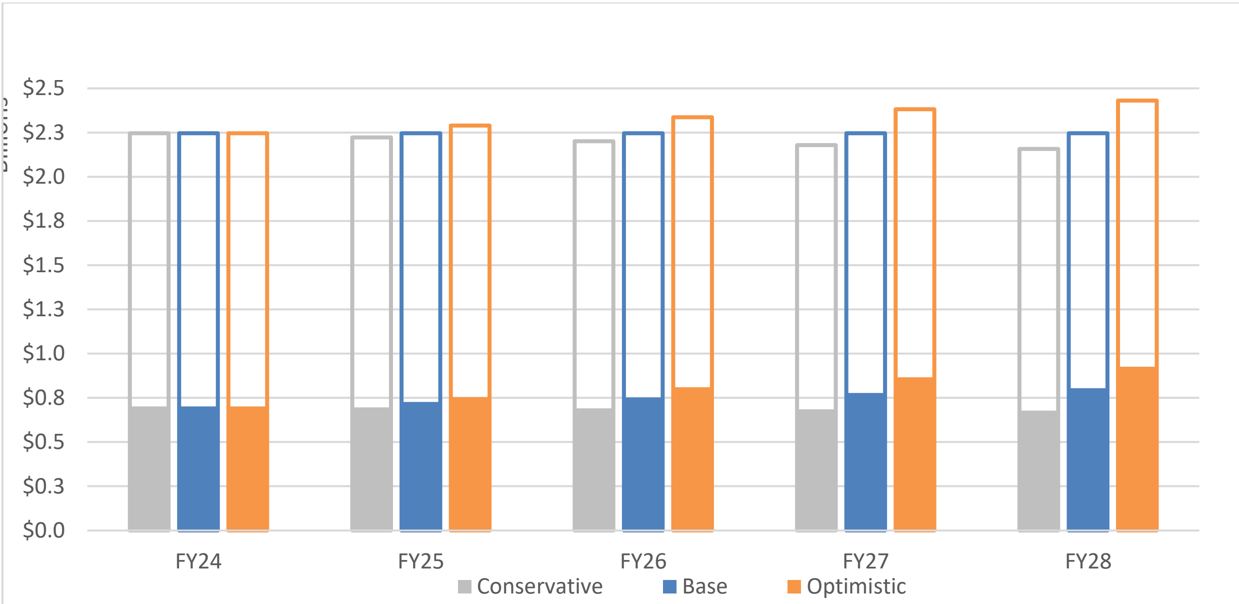


Table 2 provides an overview of the assumptions used to forecast NPSR in each scenario.

Table 2. Annual change in NPSR assumptions, by scenario

		Conservative	Base	Optimistic
Gross charges		1% decrease	0%	2% increase
Payor mix	**Self-Pay proportion**	2 percentage point increase, maximum at total 38%	Constant	2 percentage point decrease, minimum at total 25%
Payor mix	**Medicaid proportion**	1 percentage point decrease	Constant	1 percentage point increase each year
Payor mix	**CountyCare proportion**	1 percentage point decrease	Constant	1 percentage point increase each year
Reimbursement rate		1 percentage point increase for Medicaid and Medicaid Managed Care	2 percentage point increase for Medicaid and Medicaid Managed Care	3 percentage point increase for Medicaid and Medicaid Managed Care

Update on recommendations of the IRFC

The IRFC's recommendations were provided on August 24, 2023, and included four recommendations that build on those approved in FY2022.[2] They reflect the need to document and monitor the

[2] Recommendations of the Independent Revenue Forecasting Commission, August 2023, https://cook-county.legistar.com/View.ashx?M=AO&ID=135212&GUID=864c5a71-dbb2-4a82-913d-dbf4f0134b8e&N=UmVjb21tZW5kYXRpb25zIG9mIHRoZSBJUkZDIDIwMjMucGRm

implementation of previous recommendations. Progress on implementing these recommendations is outlined in Table 3.

Table 3. Progress on recommendations of the IRFC

Deliverable	Progress
Methodological report and tax history document	Published methodology report on the IRFC website
ARPA sustainability analysis of the potential impact on the fund balance of providing funding support to after 2026	This work is currently being scoped alongside program sustainability evaluation
Access IDOR sales tax data	IDOR agreed to provide this data and the County has successfully downloaded a set
Economic and policy factors in the CCH revenue forecast	Staff has conducted research around the role of economic factors

Economic data releases

The OCFO monitors economic indicators that inform the County's revenue and expense forecasting. Economically sensitive revenues account for 60.6 percent of the General Fund forecast, including revenues in the Transportation Fund, and the County's expenses are impacted by inflation. Table 4 provides a schedule of economic data releases from several of the agencies that the OCFO tracks. To implement the IRFC's recommendation, the OCFO is tracking releases to ensure that the most updated indicators available are used in forecasting.

Table 4. Economic data releases, February 2024 through April 2024

Release Date	Indicator
February 2024	
February 2	Employment Situation
February 13	Consumer Price Index
February 28	Gross Domestic Product, 4th Quarter and Year 2023 (Second Estimate)
March 2024	
March 8	Employment Situation
March 12	Consumer Price Index
March 20	Federal Reserve Economic Projections
March 28	Gross Domestic Product, 4th Quarter and Year 2023 (Third Estimate)
April 2024	
April 5	Employment Situation
April 10	Consumer Price Index
April 25	Gross Domestic Product, 1st Quarter 2024 (Advance Estimate)

Economic update

The U.S. Bureau of Economic Analysis has released its advance estimate for national real Gross Domestic Project (GDP) growth, which show that real GDP increased 3.3 percent in the fourth quarter of 2023. This growth of 3.3 percent was 1.6 percent lower than the previous quarter, but surpassed expectations for the fourth quarter real GDP growth. This growth reflects increases in consumer spending, exports, state and local government spending, nonresidential fixed investment, federal government spending, private inventory investment, and residential fixed investment. Imports, which are a subtraction in the calculation of GDP, also increased. As detailed in Table 4, an updated GDP estimate for the fourth quarter will be released on February 28.

In their most recent forecast, Moody's Analytics forecasted that the Gross Metropolitan Product (GMP) for the Chicago-Naperville-Elgin metropolitan area would see weaker GMP growth in 2025 and 2026, before increasing to historical trend levels in 2027 and 2028. While Moody's continues to project that the unemployment rate in the region will not reach its pre-pandemic level of 3.6 percent in the next five years, Moody's also anticipates that unemployment will remain below 5 percent. Although inflation is expected to remain elevated in the first quarter of 2024, it is forecasted to remain under 3 percent through 2024 and continue to moderate in the outyears. Table 5 provides an overview of economic indicators that are considered when developing revenue forecasts.

Table 5. Actuals and forecasts of economic indicators, Chicago-Naperville-Elgin Metropolitan Area, 2022 to 2028

	2022	2023	2024	2025	2026	2027	2028
Gross Metro Product, (% change, Ch. 2017, SAAR)	1.5%	1.5%	1.4%	1.1%	1.6%	1.8%	1.8%
CPI, All Urban Consumers, (% change, SA)	7.7%	3.5%	2.5%	2.4%	2.2%	2.1%	2.1%
Resident Population: Total, (Ths. #)	9,460.3	9,451.0	9,435.9	9,409.8	9,385.5	9,358.2	9,325.0
Disposable Personal Income, (% change, SAAR)	(1.8%)	7.1%	3.6%	3.5%	3.6%	3.7%	3.6%
Labor Force Participation, (%, SA)	65.6%	65.6%	65.5%	65.6%	65.6%	65.7%	65.9%
Labor: Unemployment Rate, (%, SA)	4.6%	4.3%	4.6%	4.7%	4.5%	4.5%	4.5%
Income: Median Household, (SAAR)	$82,914	$86,580	$89,497	$92,234	$95,191	$98,302	$101,435
Income: Per Capita, (SAAR)	$72,395	$75,763	$78,875	$81,893	$85,124	$88,541	$92,143
Labor: Number of Employed, (Ths. #, SA)	4,735.7	4,744.3	4,709.9	4,706.0	4,705.2	4,703.2	4,696.4
Retail Sales: Total, (% change, SAAR)	10.2%	3.1%	3.8%	2.5%	2.5%	2.3%	2.5%

Source: Moody's Analytics, January 2024 baseline scenario